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TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EPET](#) [RS](#) [UP](#) [XG](#) [XH](#)
SUBJECT: ENERGY SECURITY BRIEFER FOR EU AMBASSADORS

REF: COMING SEPTTEL

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Classified By: NMCELDOWNEY

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networks and integration of electricity grids.
- Encourage sufficient natural gas storage capacity.

Russia

[17](#). (C) Russia has the world,s largest reserves of natural gas and will be a critical global energy supplier in the foreseeable future; European dependence on Russian gas is likely to grow in tandem with increasing demand. In addition, most of Europe,s nuclear fuel comes from Russia. Russia,s desire for influence over the former Soviet and Eastern Bloc states and its position as an energy supplier give it the ability and the motive to use gas supplies as a lever of political influence, particularly in Central and Eastern Europe.

[18](#). (C) Russia,s extremely poor business climate, poor record with foreign investors and problems with the rule of law and corruption are weakening its energy sector. While questions remain as to whether Russia will able to maintain its current level of production due to insufficient investment in existing fields and lack of progress in bringing large new fields online, reduced European gas demand due to the financial crisis and a global oversupply of gas has given Russia some breathing room. Russia has indicated that it intends to expand the involvement of foreign companies in its strategic, hydrocarbon sector, but it has not yet offered a specific model for cooperation that includes details on tax incentives, ownership rights or minimum bids.

[19](#). (C) While the European Commission, including President Barroso, believes Russia has used energy as a political weapon, and could continue to do so, some EU member states do not agree. These member states support other Russian-backed pipelines, such as Germany,s interest in the Nordstream pipeline and Italy,s participation in the proposed South Stream pipeline. The U.S. does not oppose any of these pipelines as long as the projects will increase the volume of gas flowing to Europe.

[14](#). (C) U.S. goals in Russia:
A constructive and cooperative energy relationship with Russia based on mutual benefit, transparency, and internationally accepted market norms and principles.

[15](#). (C) U.S. Strategy in Russia:

- Promote U.S. and European investment and access to energy deposits in Russia, Europe, the Caspian and Central Asia.
- Promote the legal, investment, and regulatory frameworks in producing countries to facilitate the conclusion of international business agreements allowing the production, sale, and transit of hydrocarbon resources.
- Reinvigorate U.S.-Russia dialogue on energy issues to provide a strong base for mutually beneficial cooperation on energy, including efficiency and renewable energy.
- Promote a non-adversarial relationship through dialogue, making clear that we do not consider Eurasian Energy as a "zero-sum game."
- Integrate Russia into European energy markets.
- Remain open to Russian participation in European and Eurasian energy projects, while opposing Russian Domination of same.

 Transit Problems and the 2009 Ukraine Gas Crisis

11. (C) In January 2009, contractual disputes led Russia to cut off natural gas shipments to Ukraine, as it had previously done (albeit for a shorter period) in January 2006. This crisis hurt Russia's reputation as a reliable supplier, both in Western and Eastern Europe. Russian officials know that another cutoff could cause further damage Russia's reputation, but they have indicated that Russia may turn the gas off again in 2010 if Ukraine defaults on its gas bills. As noted above, 80 percent of Russian gas intended for Europe flows through Ukraine, holding countries dependent on these transit lines for gas for residential heating hostage both to Russia's political maneuvering and Ukraine's internal political and fiscal problems. Europe increasingly blames both Russia and Ukraine for the repeated disputes.

12. (C) Ukraine's increasing fiscal problems and lack of progress on reforms mandated under its IMF program make it likely that Ukraine will not be able to pay its gas bills this winter. The EU recently rebuffed a suggestion by Russian Prime Minister Putin that the EU should help Ukraine pay these bills. Vulnerable countries have increased storage since last year, but the prospect of another gas supply disruption will increase the pressure to find more secure

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transit for energy supplies to Europe.

13. (C) The January 2009 gas crisis demonstrated to EU member states the inherent problems of the current system. As a result, strong EU and U.S. support reinvigorated the proposed Nabucco pipeline, which would deliver Caspian (and perhaps Iraqi) gas to Europe through Turkey. An inter-governmental agreement was signed in July by the Nabucco host governments (Turkey, Romania, Austria, Bulgaria and Hungary). Nabucco is part of the "Southern Corridor," which also includes a proposed Turkey-Greece-Italy (TGI) pipeline. The European Commission supports Nabucco and TGI (the EU has approved 200 million Euro for Nabucco and 100 million Euro for TGI). Progress on the project is at a standstill until Turkey and Azerbaijan complete a gas purchase and transit agreement, a necessary step in making Nabucco a workable project. The U.S. does not support one pipeline over another, but encourages all negotiating parties to make progress, so that these projects can move forward.

14. (C) Both Ukraine and Turkey have dysfunctional internal energy markets that threaten their energy security and economic development. Problems with corruption and the business climate mean that both producers and consumers face threats to their legitimate interests.

15. (C) U.S. Goals for Ukraine:

- Turkey and Ukraine as transparent and reliable transit states for Russian, Caspian, and Middle Eastern energy to European and world markets.

¶6. (C) U.S. Strategy for Ukraine:

- Work, both bilaterally and in cooperation with Europe, to promote transparency and reform of the energy markets and to improve the business climate to encourage investment in domestic energy production.
- Promote finalization of a gas transit and purchase agreement between Turkey and Azerbaijan.
- Work with the EU and the IMF to encourage necessary reforms in Ukraine under the IMF stand-by arrangement.
- Work with the EU and bilaterally to encourage greater conservation, efficiency and market reform both in Turkey and Ukraine.

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